GREATER MANCHESTER PENSION FUND - POLICY AND DEVELOPMENT WORKING GROUP

11 December 2015

Commenced: 8.00am **Terminated:** 9.50am

Present: Councillors K Quinn (Chair), J Fitzpatrick, Pantall, Taylor and J Lane

Apologies for Absence: Councillors Cooney, M Smith, S Quinn and Ms Baines

8. DECLARATIONS OF INTEREST

Member	Subject Matter	Type of Interest	Nature of Interest
Councillor K Quinn	Urgent Item – Class Actions	Prejudicial	One of interviewees provided hospitality to Councillor K Quinn via his position as Chair of LAPFF

Councillor K Quinn left the room during consideration of the above item and took no part in the discussion nor decision thereon.

9. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 27 May 2015 were approved as a correct record.

10. POOLING OF ASSETS

Consideration was given to a report of the Executive Director of Pensions and a presentation of the Assistant Executive Director, Funding and Business Development, which provided an update on recent developments relating to the proposals for pooling investments across the LGPS in England and Wales and the recent activities of GMPF in this area.

It was explained that the LGPS across England and Wales, consisted of 89 regional funds with total assets of almost £200bn. The average size of a regional fund was around £2bn, but there was wide variation between the largest fund, GMPF, at £17.6bn and the smaller funds, such as those operated by each of the 32 London Borough, many of which had assets of less than £1bn. DCLG/HMT had been looking at options to reduce investment management costs and improve investment returns across the LGPS as a whole for a number of years.

The Chancellor announced in the summer budget that he would be seeking proposals for pooling of assets by funds and following the budget announcement key messages emerged in discussions with DCLG/HMT officials, as follows:

(i) Proposals for pooling would need to be assessed against criteria to be set by Government;
(ii) Criteria were likely to be around size, (£30bn had been used as an illustrative example), cost/savings and governance (improving decision making such as hire/fire decisions of fund managers;
(iii) Crtieria would likely be published alongside a consultation on new investment regulations and 'back stop' legislation, which would apply if any fund is not invested via a vehicle/s which meet the criteria;

(iv) Thoughts about pooling models and options should be underway now with a view to options going to ministers early next year;
(v) Announcement by Government on the way forward likely was likely to be contained in the Spring 2016 Budget;
(vi) Government had no fixed ideas on the structure of pools but had expressed a preference for a 'simple' solution;
(vii) Government was alive to the transaction issues for example, illiquid investments that could not be unwound in the short term without significant financial penalties. However it would probably expect pooled vehicles to be in place in this parliament even if all assets were not yet ready to be moved;
(viii) There could be a place for a proportion of the assets to remain under direct local control in certain circumstances. However any such exemptions would probably be for prescribed investments and would be relatively small.

Members were further informed that, at the Conservative Party Conference on 5 October 2015, the Chancellor provided a further statement as follows:

"At the moment, we have 89 different local government pension funds with 89 sets of fees and costs. It's expensive and they invest little or nothing in or infrastructure. So I can tell you today we're going to work with councils to create instead half a dozen British Wealth Funds spread across the country. It will save hundreds of millions in costs, and crucially they'll invest billions in the infrastructure of their regions."

Further reference to these British Wealth Funds was also made within the Government's four-point infrastructure plan.

DCLG subsequently issued a letter to all LGPS funds providing reassurance that the Chancellor's latest comments were not a departure from the original proposals and the outcome of the process was not a 'fait accompli'. However there was a strong suggestion that Government saw the outcome as groups of funds working together across all asset classes and that the ability to invest in large scale infrastructure was now one of the criteria upon which proposals would be assessed.

Following the Chancellor's spending review and Autumn Statement, the Government had published a number of documents relating to LGPS investments in England and Wales and an initial analysis of each of the documents was provided for discussion.

The criteria for evaluating pooling options was outlined and it was explained that there were two ways in which assets could be pooled:

(i) By funds working together and pooling their collective assets; and
(ii) By creating individual asset class pools, e.g. a UK equity pool.

An initial evaluation of these options had been presented at the October meeting of the Management Panel (Meeting of 2 October 2015, Minute 34 refers) and following discussions, views on criteria were expressed in a letter to DCLG, a copy of which was appended to the report. The criteria by which funds proposals will be evaluated by Government were set out in the recently published – "Local Government Pension Scheme – Investment Reform Criteria and Guidance." These were as expected with the aim to reduce costs and at least maintain returns. The specific criteria were:

- Asset pools should achieve the benefits of scale;
- Strong governance and decision making;
- Reduce costs and provide excellent value for money; and
- Improve capacity to invest in infrastructure.

It was reported that a group of 25 funds, including GMPF, had formed a joint working group to work together on a project to deliver a joined-up response to Government on options for LGPS investment pooling. The aim of the project was to deliver an authoritative and objective based assessment of options for pooling LGPS investments. All of the options for pooling would be assessed against the likely Government criteria for pooling. The working group aimed to deliver its report to Government in January 2016 and to share it with all administering authorities, the LGA and other interested parties.

Members were informed that, since the October meeting of the Management Panel, discussion regarding collaboration had been ongoing on a regular basis with a number of other, predominantly northern based LGPS funds. The funds involved had shared information on their investment beliefs, investments management arrangements, their key strengths and the 'red-lines' which would prevent them being party to any agreement. GMPF's 'red-lines' were broadly as set out in the Fund's response to government on criteria which was appended to the report.

This sharing of information was designed to help funds determine the 'like-minded' funds with which they could form an asset pool. The long term vision which GMPF envisaged creating with other funds was a pool which provided the following:

- A mix of internal and external investment management
- Collective investing in alternatives, which would;
- Build capacity and skills;
- Becoming increasingly direct; and
- Increase scale and reduce risk in infrastructure.

It was reported that at this stage, GMPF was open minded to working with other pools or on a national basis for some alternative assets, for example infrastructure.

The Chair thanked officers for the report and presentation and informed Members that engagement was ongoing with a wide range of Funds.

RECOMMENDED

(i) That progress and developments, which have taken place since the October meeting of the Management Panel, be noted; and

(ii) That the content of GMPF's response to Government on criteria be noted, including details of 'red lines' that would prevent GMPF becoming party to an agreement with other funds.

11. COLLABORATION WITH OTHER LGPS FUNDS ON INVESTMENTS

The Executive Director of Pensions submitted a report and the Assistant Executive Director, Local Investments and Property delivered a presentation providing an update on investment activity undertaken by GMPF in collaboration with other LGPS funds, and in particular, on the collaboration with LPFA on infrastructure and the North West Impact portfolio.

It was reported that a significant amount of work had been undertaken in setting up the joint venture, now known as GLIL (Greater Manchester and London Infrastructure Limited Liability Partnership). The vehicle had a formal governance structure with two key committees for decision making; the Investment Committee and the Management Committee, which meet on a regular basis. A copy of the investment guidelines were appended to the report. Details of current opportunities on which due diligence costs were being incurred was reported.

Investments in infrastructure through funds was attracting significant commitments and there are a number of overseas investors active in the market. This leads to a very competitive environment to source deals. There had been considerable investment activity and details of the key investments completed, or being in final due diligence were reported together with investment opportunities that had been rejected.

It was explained that the pooling agenda loomed large and it was expected to provide significant opportunities for the GLIL to grow its assets under management as part of any future arrangements. Pending the outcome of discussions it was flagged that the Panel may be asked to consider increasing GMPF's commitment.

An issue facing GLIL was the investment limit of £100m set out in the investment guidelines. This was based on the 20% of the current committed capital of £500m. The team were seeing a number of investment opportunities in the £100-150m range and currently had to seek specific Panel approval to fund those investments, adding governance complexity and potential delays in processes that were often highly time-sensitive.

Members were informed that it would be helpful for GLIL to be able to bid for assets up to £150m without the need for recourse to the Panel. Approval was therefore sought to temporarily amend the investment guidelines for a period of 12 months, such that the concentration limit would be the higher of 20% of commitments and £150m. At the end of the 12 month period, the concentration limit would become 20% of capital committed to GLIL.

With regard to the North West Impact Portfolio, it was reported that the team for impact investments had been built out during the year, alongside compiling investment processes. There had been a significant amount of work on investments carried out during the year as detailed in the report.

Work on attracting other LGPS funds to work with the Fund on the North West Impact Portfolio progressed during the year with several meetings but had been impacted by the pooling agenda. A Pension Fund in the North West retained an interest in working with the Fund and work on the final stage of due diligence on how this would operate was currently ongoing.

RECOMMENDED
(i) That the progress and developments which had taken place during the year on the two collaboration projects detailed above, be noted; and
(ii) That the change to the investment guidelines for GLIL in relation to concentration limits, as set out in the report and detailed above, be approved.

Councillor K Quinn left the room during the consideration of the following urgent item and took no part in the discussion nor voting thereon. Councillor Taylor, in the Chair, for the remainder of the meeting.

12. URGENT ITEM

RESOLVED
That the following item be considered as urgent due to time constraints.

13. CLASS ACTIONS

The Executive Director Governance and Solicitor to the Fund and the Executive Director of Pensions submitted a report summarising potential litigation in which Greater Manchester Pension Fund (GMPF) and others would seek to recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies, and recommended courses of action in respect of each potential case.

Members were informed that in December 2014, after a series of earlier reports to the Ethics and Audit Working Group, a report was submitted to the Panel stating that GMPF could be better placed to deal with Class Actions as they arose, and in particular would benefit from increased notice of potential claims. Furthermore, the report indicated that there was a growing focus on non-US litigation, which was becoming increasingly time-consuming for officers.

For those reasons, the Panel approved the inception of formal contractual relationships with two US law firms and GMPF appointed SRKW and RGRD to provide portfolio monitoring services.

The advantages to GMPF of taking these portfolio monitoring services were that GMPF received timely notification of potential actions where GMPF had suffered a material loss. GMPF also received legal advice as to the merits of potential actions, such as the SRKW 'Investor Alerts'.

In granting approval the Panel endorsed a requirement that the contract terms must reflect the fact that GMPF did not wish to become a lead plaintiff in any litigation

In contracting for these portfolio monitoring services, GMPF had not committed itself to take an active part in litigation (ie to act as lead plaintiff). Moreover, if GMPF did decide to pursue an action as lead plaintiff, it was not bound to engage either of the law firms that provided a portfolio monitoring service to GMPF.

Members were informed that in most class action situations it was appropriate for GMPF to act entirely passively and simply await the settlement of any class action and then submit a claim (via our Custodian JPMorgan) for GMPF's share of the settlement amount.

Alternatively, GMPF could take a more active role in relevant Class Actions and seek to take advantage of situations where either an entirely passive approach is not available or where there were considered to be other advantages to so doing. These more active roles could involve quite undemanding requirements such as "opting-in" to a particular Class Action whilst still not playing a lead plaintiff role.

The report further detailed ongoing class actions where SRKW and RGRD had recommended that GMPF deviate from an entirely passive role (further details of each class action were also given in appendices to the report). Officers of GMPF had reviewed the recommendations made by SRKW and RGRD against five key conditions which had been incorporated into the contracts with SRKW and RGRD. An optimistic officer estimate of recovery rate was also detailed, however, it was noted that such a recovery only applied if the case was successful.

The recommendation from both SRKW and RGRD in respect of a large pharmaceutical company was to consider seeking to take on the most active and demanding role of acting as lead plaintiff. The benefits of being lead plaintiff were outlined and it was explained that if there was an opportunity to control the litigation and recover losses whilst raising the standard of corporate governance with no risk of GMPF incurring any costs and with a low impact on GMPF internal resources this would be an expedient outcome for GMPF, particularly given its status as the largest Local Government Fund in the UK.

In the interest of fairness both SRKW and RGRD had been invited to complete very short responses to five questions and both appeared before Members of the Working Group for a maximum of 5 minutes to clarify their answers and respond to any follow up questions as necessary. The questions and responses given by each lawyer were circulated with the report.

Discussion ensued in respect of the merits of pursuing a class action as lead plaintiff and also upon the responses and presentations of the two lawyers and it was;

RECOMMENDED

(i) That the officer recommendations, as set out in Table 1 of the report, in respect of outstanding class actions, be approved;

(ii) That a pilot case be run with GMPF seeking to act as lead plaintiff in a class action against the large pharmaceutical company identified in the report);

(iii) That RGRD be engaged to undertake a pilot case with RGRD identifying this first case and SRKW be engaged to act on GMPF's behalf in seeking to be lead plaintiff in the next suitable class action recommended by SRKW.